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RUEHFL/AMCONSUL FLORENCE PRIORITY 2048  
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S E C R E T SECTION 01 OF 02 ROME 000095

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STATE FOR EUR/PGI:LREASOR; EUR/WE:AYOUNG AND KOPSTRUP  
TREASURY FOR BDAVIS, RLEOFFLER, KHECHT, CEDDY

E.O. 12958: DECL: 01/16/2017

TAGS: [PREL](#) [EFIN](#) [ETTC](#) [KTFN](#) [KNNP](#) [KN](#) [PARM](#) [IR](#) [IT](#)

SUBJECT: IRAN - GOI REACTION TO BANK SEPAH DESIGNATION

REF: A. STATE 2284

[1](#)B. 06 ROME 3378

[1](#)C. ROME 47

[1](#)D. PARIS 124

Classified By: DCM Anna Borg for reasons 1.4 (b) and (d).

[1](#)1. (S/NF) SUMMARY: MFA Political Director Terzi told visiting EUR A/S Fried that Italy expects European Commission political directors to come to agreement on a common position regarding the U.S. designation of Bank Sepah, within the next few days. Domestically, the GOI is considering revising its banking legislation in order to overcome the stratagems and tricks of proliferators like Bank Sepah. The Chief of the Bank of Italy's (BOI) Banking Supervision Department, Giovanni Carosio, reported January 11 that the GOI's interagency consultation did not result in a GOI decision to take action against the Bank of Sepah Rome branch. However, the BOI will do the following: (a) send a letter to Bank Sepah's Rome branch re UNSCR 1737; (b) send a circular letter to all Italian banks notifying them of the U.S. designation and warn them of the risks in undertaking any dealings with Bank Sepah; and (c) call for a meeting of the interagency Financial Security Committee to study possible GOI actions.

[1](#)2. (S/NF) Carosio confirmed that the MFA will decide whether to take any action against Bank Sepah's Rome branch. Lacking a stronger GOI, EU, and/or UN legal framework, little is likely to change in BOI's position on Bank Sepah. Carosio speculated that the U.S. designation might persuade the Bank Sepah Rome branch to close down altogether. He asked that the U.S. continue to respect the GOI's wish to keep a BOI report on Bank Sepah's Rome branch private, as making it public could jeopardize future information sharing with the U.S. End summary.

MFA Looking to EC to set lead; suggests revising bank legislation

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[1](#)3. (S/NF) EUR A/S Daniel Fried met with MFA Political and Multilateral Affairs Director Giulio Terzi and MFA DG for the Americas, Claudio Bisogniero January 10. Fried was accompanied by Pol M/C. On Bank Sepah, Terzi said he had just come from an inter-departmental meeting on Iran and UNSCR 1737 implementation. Terzi said he expected a common decision by EC poldirs in the next few days, to be followed

by adoption of measures by the EU. Meanwhile, the GOI is looking at adopting new banking legislation. Terzi said the GOI will circulate the U.S. E.O. as a follow-up to their previous circular warning. Fried stressed the importance of following up on the UNSCR and the need to pressure Iran, especially on the financial side. Fried underscored the need to work together to narrow the spaces for such proliferation activity and said he hopes Italy will be able to take action, and soon on Bank Sepah.

#### NEXT STEPS FOR BOI

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14. (S/NF) Acting ECOMIN and ECONOFF met January 11 with Giovanni Carosio, BOI's Deputy Director General and Chief of the Banking Supervision Department. We passed him Treasury's January 9 press statements with the Embassy's Italian language translation and repeated U.S. concerns about Bank Sepah's Rome branch (ref B). Carosio expressed appreciation and thanked the U.S. for advance notification.

15. (S/NF) Carosio provided a readout on the GOI's January 10 interagency meeting on Iran (ref C). According to Carosio, the meeting did not result in an MFA decision on Bank Sepah's Rome branch. He noted, however, that the MFA was continuing to review UNSCR 1737, confirming that the MFA would ultimately decide if Italy will take a more active position against Bank Sepah's Rome branch.

16. (S/NF) Carosio stated that the BOI will take the following actions as a result of the U.S. designation and UNSCR 1737:

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-- BOI will write to Bank Sepah noting the U.S. designation and UNSCR 1737 and make clear that it may not undertake any future transactions with Reza-Gholi Esmaeli. (Note: Esmaeli is listed in UNSCR 1737 Annex A as "Head of Trade & International Affairs, Aerospace Industries Organization (AIO)." A late 2006 BOI report on Bank Sepah's Rome branch noted that Hong Hua Tianjin International Trading of Beijing had authorized withdrawals and deposits from its account to Esmaeli through the Bank Sepah Rome branch. End note.)

-- BOI will issue a circular letter to all Italian banks, warning them of the increased level of risk for their U.S. business interests if they were to undertake any dealings with Bank Sepah (ref D, para 10).

-- BOI intends to call for the GOI's interagency Financial Security Committee to meet soon to evaluate the GOI's position on Bank Sepah's Rome branch.

17. (S/NF) Carosio predicted that, following the U.S. designations, Italian banks would continue to not have any dealings with Bank Sepah, leaving Sepah's Rome branch further isolated and making the bank's presence in Italy "meaningless." He said the GOI had earlier asked Bank Sepah to reconsider its presence in Italy, and suspected that the branch's continued presence -- despite having no significant activity with Italian entities -- represented a political statement by Iran.

18. (S/NF) On UNSCR 1737, Carosio reported that BOI had requested its Legal Counsel to determine if the resolution held any further implications for GOI interests. Regarding AIO, the Legal Counsel had determined that while Bank Sepah's Rome branch had processed transactions for AIO, there was no definitive proof linking those AIO transactions to proliferation activities. Therefore, BOI lacks a basis for issuing a "cease and desist" order to Bank Sepah's Rome branch. However, Carosio reiterated that the information in UNSCR 1737 on Reza-Gholi Esmaeli was specific enough to

enable BOI to demand that Bank Sepah's Rome branch prohibit all dealings with him.

¶9. (S/NF) When pressed about making public the BOI report on Bank Sepah's Rome branch to clarify the U.S. designation and to show USG-GOI cooperation, Carosio made it clear that the U.S. should continue to respect the GOI's wish to keep the BOI report private. Making public the findings could compromise the BOI's and GOI's intelligence and investigative methods and jeopardize future information sharing with the U.S. Carosio thanked the U.S. for not making mention of the BOI report in its January 9 public statements.

¶10. (S/NF) COMMENT: The MFA appeared confident a common decision by EC poldirs in the next few days would be followed by adoption of measures by the EU giving Italy a legislative leg to stand on in taking action against Bank Sepah. FM D'Alema, however, signaled the GOI approach to A/S Fried, saying that it was important to respect the UNSCRs, but no more. The BOI sees any action taken against Bank Sepah's Rome branch as fundamentally "political" and, like the Ministry of Finance, is deferring to the MFA. The bottom line for BOI remains: it would prefer to see Bank Sepah's Rome branch fade away without having to take public action against it -- especially as such action could jeopardize Italian economic interests in Iran. Lacking clear evidence of proliferation activity and a stronger GOI, EU, and/or UN legal framework to enable Italy to move against the bank, little is likely to change in the BOI's position on Bank Sepah. End comment.  
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